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LATAM 7 + Argentina

Macro Brief

November, 2017

- ✓ **Argentina:** A Government strengthened after the elections
- ✓ **Brazil:** Stronger economy but increased political volatility
- ✓ **Chile:** A new political stage
- ✓ **Colombia:** Further monetary easing
- ✓ **Mexico:** Rebuilding after the earthquakes
- ✓ **Peru:** Economy enters a virtuous cycle
- ✓ **Uruguay:** Better 2018 due to good neighbors
- ✓ **Paraguay:** Rebound from a weak Q2 in progress

ARGENTINA

Good news	To be alert	Bad news
The Government received a strong support on the polls, as it got 42% of the votes. Activity continues growing. The primary deficit this year would be lower than the fiscal target.	The Government announced a tax reform to lower the tax burden for companies, a labor reform to lower labor taxes, and wants to change the adjustment formula for pensions.	Resilient inflation expectations forced a further monetary tightening. The Central Bank raised the policy rate by 250 bps. Exports are growing barely 1% so far this year.

Politics

The official party received a strong support on the general elections. Cambiemos candidates not only prevailed over CFK in the province of Buenos Aires by 4 points, but they also won in 13 other provinces and scored the five most populated districts. At a national level it received 41.9% of the total votes and it expanded its electoral base by almost five points compared to the primaries. The Government announced a tax reform, a labor reform and wants to change the adjustment formula for pensions.

Economic Activity

Activity continued growing in August in monthly terms, while in yearly terms monthly GDP recorded the sixth rise in a row. So far this year, GDP accumulates a 2.4% upturn compared to year ago. In September, the industry grew 4.3% annually and extended its streak of increases, led by branches linked to those sectors that have been driving the recovery, as construction and agriculture. Moreover, construction does not falter and grew 13.4% in September, while private consumption began to show signs of a more widespread rebound, as automotive but also retails sales are growing.

Inflation

After a bitter September that made the Central Bank to tighten its monetary policy, inflation in October reached 1.5%, decelerating from the 1.9% of September, while core inflation also decelerated from 1.6% to 1.3%. Moreover, core inflation in Buenos Aires was the lowest since it is measured in the Province. So far this year, national inflation accumulates 19.4%, above the official target for the whole year (17%). We expect annual inflation to reach 23% at year end and around 17% in December 2018.

Monetary Sector

Soon after the elections, the Central Bank took the market by surprise and increased twice the policy rate, first on October 24th by 150 bps, and two weeks later by other 100 bps. While the first decision was unexpected, the second one was even a bigger surprise. The main drivers are the difficulties to beat down core inflation and a modest increase in inflation expectations in the last months. As a result, expected real interest rates are higher than ever (around 12%), as the nominal rates (29%) are considerably higher than the one year expected inflation (17%).

Fiscal Front

Primary deficit continued decreasing, as tax revenues in real terms are growing faster than expected, due to economic recovery, while expenditures remains stable in real terms. The primary deficit is likely to reach 4.0% of GDP this year, and locate below the target of 4.2% of GDP, something that has been anticipated by the Government. The compensation to the Province of Buenos Aires by the "Fondo del Conurbano", equivalent to around 0.2% of GDP, will be funded by the change in the adjustment formula for pensions, that would provide a fiscal relief similar to 0.2% of GDP.

What's coming next?

The Government announced its tax reform project, which involves lowering the tax burden for companies in order to boost investment. In addition to the tax reform, it is sending to the Congress a Labor reform, which intends to reduce the social security taxes paid by the employers. In addition, there will be a new adjustment formula for pensions, that has to be negotiated with the governors. The MSCI will announce between February and March 2018 if Argentina is upgraded to an emerging market.

ARGENTINA: APPENDIX

Dashboard

	Nov-17	Oct-17	Sep-17	Nov-16	2016
Exchange rate (ARS/USD, eop.)	17.53	17.67	17.32	15.84	15.85
Interest rate (%)	28.75%	27.75%	26.25%	24.75%	24.75%
National inflation (y/y)	-	22.9%	24.0%	41.5%	36.6%
Economic activity (y/y)	-	-	-	-1.5%	-2.2%
Industrial activity (y/y)	-	-	2.3%	-4.1%	-4.6%
Automotive production (y/y)	-	15.9%	10.2%	3.3%	-10.2%

Source: EconViews based on several sources

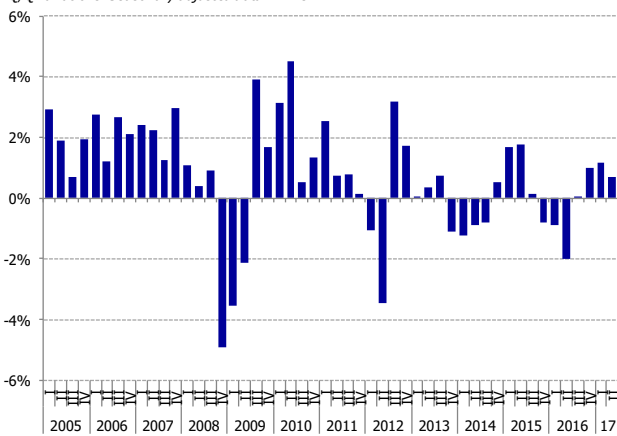
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	-2.5%	2.6%	-2.2%	3.2%	4.0%
National inflation (Dec-Dec)	36.7%	28.4%	36.6%	23.0%	17.0%
Fiscal Balance (% GDP)	-4.5%	-5.6%	-5.9%	-5.7%	-5.3%
Current Account (% GDP)	-1.5%	-2.7%	-2.7%	-4.1%	-4.4%
International reserves (USD Bn)	31.4	25.6	39.3	52.0	61.5
Exchange rate (ARS/USD)	8.55	13.01	15.85	18.00	20.53

Source: EconViews based on official figures and own estimates

Real GDP

Q/Q variations- Seasonally adjusted data INDEC



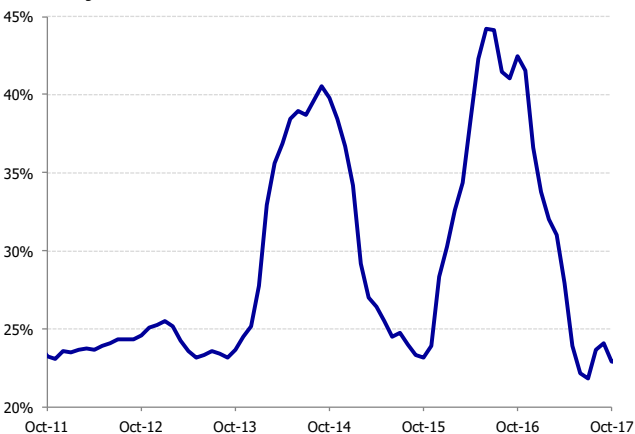
GDP growth - rolling forecasts for 2017

In %

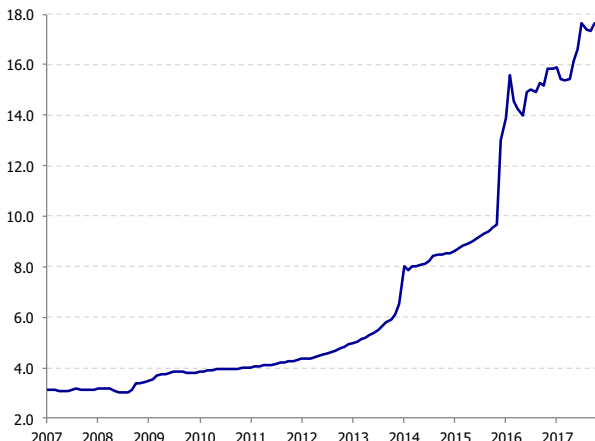


Inflation - General CPI

Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
Tamed inflation, lower unemployment and record high trade surplus are the bright spots on the Brazilian recovery.	Fiscal deficit remains high and its consolidation is heavily dependent on the approval of the pension reform, which has been delayed	The political crisis in Brazil derived from the Lava Jato corruption scandal will endow the election process with heightened volatility

Politics	<p>In late October IBOPE released the results of the first poll conducted ahead of the Presidential elections to be held next year. Ex President Lula da Silva is leading the vote intentions and according to the result would confront in a second round with ultra right candidate Bolsonaro. Other candidates are lagging behind. The election process will be subject to heightened volatility as it will be affected by the Lava Jato investigations (Lula da Silva candidacy depends on legal issues).</p>
Economic Activity	<p>Many industrial and retail segments have printed positive figures recently. In addition, YTD trade balance topped USD 67.7 billion, a record-high. The recovery of economic activity is driving down the unemployment rate, which fell from 13.2% in March to 12.4% in September. The main driver behind this performance is the strong gain in informal jobs. We expect GDP to grow around 0.7% this year and 2.4% in 2018.</p>
Inflation	<p>Inflation was 0.42% m/m in October and amounted to 2.2% so far this year. The 12-month cumulative inflation went up from 2.54% in September to 2.7%, but is still well below the target (the lower tolerance band is at 3.0%). In particular, core inflation was 3.8% y/y, below the 3.9% rise of September. We expect inflation to stand at 3.1% in December and 4.1% next year. The main risk factors for the inflation scenario are related to the domestic political uncertainty that has hindered progress in reforms.</p>
Monetary Sector	<p>The Brazilian Real hovered around 3.28 BRL/USD in mid November, barely unchanged on a YTD basis. We expect the Real to remain trading in the 3.30 zone in the next weeks and close 2018 at around 3.50 BRL/USD. The Selic was slashed by 75bps in October, from 8.25% to 7.50%, its lowest level since July 2013. As long as economic conditions stay favorable and inflation remains at low levels, we expect the Selic to be cut by another 50 bps in December, to end the year at 7.0%.</p>
Fiscal Front	<p>In light of weak tax collections and complexities to reduce expenses the government decided to review the primary fiscal target for 2017 (-2.4% of GDP) and 2018 (-2.2% of GDP). Although the drop in the Selic rate will reduce the burden of the interest bill, this deterioration adds some urgency to the approval of the pension reform to meet the spending cap after 2019 and help the public debt dynamics to remain sustainable. We expect a fiscal deficit of 8.3% of GDP this year.</p>
What's coming next?	<ul style="list-style-type: none"> A delay in the pension reform may cause additional impact on country risk premiums and the exchange rate. Unorthodox or populist policies could result if extreme rightist or leftist candidates access the Presidency next year. Uncertain political process may derive from Lava Jato investigations and very low confidence from voters.

BRAZIL: APPENDIX

Dashboard

	Nov-17	Oct-17	Sep-17	Nov-16	2016
Exchange rate (BRL/USD, eop.)	3.26	3.27	3.16	3.39	3.26
SELIC (%)	-	7.50%	8.25%	14.00%	13.75%
Inflation (y/y)	-	3.2%	3.0%	7.0%	6.3%
Economic activity (y/y)	-	-	-	-2.8%	-3.6%
Industrial activity (y/y)	-	-	2.5%	-1.1%	-6.4%
Automotive production (y/y)	-	-	20.8%	11.9%	-12.1%

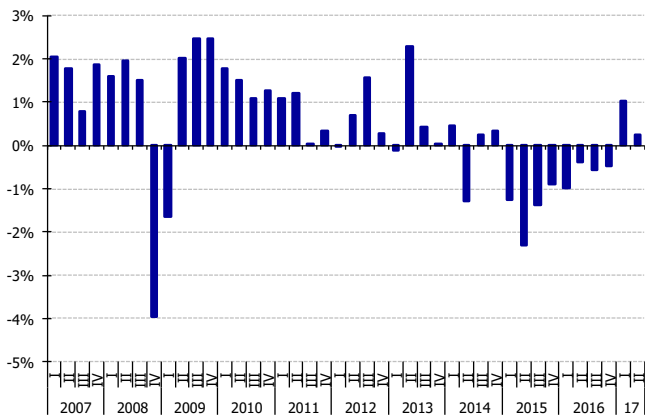
Source: EconViews based on several sources

Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	0.5%	-3.8%	-3.6%	0.7%	2.4%
Inflation (Dec-Dec)	6.4%	10.7%	6.3%	3.1%	4.1%
Fiscal Balance (% GDP)	-6.1%	-10.2%	-9.0%	-8.3%	-7.2%
Current Account (% GDP)	-4.2%	-3.3%	-1.3%	-1.4%	-1.8%
International reserves (USD Bn)	354.8	348.9	356.8	375.8	380.8
Exchange rate (BRL/USD)	2.66	3.96	3.26	3.30	3.45

Source: EconViews based on Consensus Forecast & IMF

Real GDP
quarterly variations, in %



GDP growth - rolling forecasts for 2017



Inflation - General CPI
Annual changes



Brazilian Real / Dollar



CHILE

Good news	To be alert	Bad news
Tourism: Santiago de Chile's airport received a record of 20 million passengers so far this year.	Consumer debt is 42% of GDP, the highest of Latin America according to the IMF.	Construction permits contracted 25% y/y in Sep-17.

Politics

This Sunday presidential elections take place. Sebastián Piñera (center-right) is the favorite candidate to win the first round but a second round against Alejandro Guillier (officialism) on Dec 17th will surely occur as voting is optional, participation is low and the ballotage is only avoided if a party garners more than 50% of the votes. Elections are important for parties because they must obtain 3% of votes in 3 continued regions or 8 discontinued regions to survive: 20 parties could disappear.

Economic Activity

According to the Imacec, economic activity improved and grew 2.2% in the 3Q-17 (0.9% in the 2Q-17). After the long strike at La Escondida, mining activity is recovering (7.6%) while non-mining activity went up 1.7%. In September, consumer confidence (Admark) reached its highest level in the last 3 years but is still pessimistic. Business confidence reached its highest level so far this year. GDP growth is expected to be 1.5% in 2017 and 3.0% in 2018.

Inflation

After reaching in September its lowest level since May-13 (1.5% y/y, well below the lower bound of 2.0%) inflation accelerated in Oct and was 1.9% y/y. On a monthly basis, prices increased 0.6% m/m. This way, inflation was well below the target of 3.0% for the 13th consecutive month. Tradable goods prices went up and grew 1.6% y/y (0.7% in Sep) while non-tradable goods still show inflationary pressure and grew 2.6% y/y.

Monetary Sector

The Chilean Peso depreciated since mid-October and reached 639 CLP/USD. Since then, it appreciated and nowadays stands around CLP/USD 629. However, so far this year the currency is 5.5% stronger mainly due to higher copper prices. In October, the CB maintained the policy rate in 2.5%. The entity sees inflation below expectations in the short term which could affect the 3% target over the 2Y horizon. This way, more easing ahead seems likely.

Fiscal Front

Government revenues accumulated a growth of 5.3% in real terms up to the 3Q-17: income and VAT were dynamic in September as economic activity is improving. Expenditure went up 5.4%, mainly driven by the payment of interests and subsidies while capital expenditure decreased 4.7% (investment fell 7.1%). In this scenario, fiscal deficit is expected to reach 2.8% of GDP this year and to narrow to 2.3% for 2018.

What's coming next?

The new president elected will take office on Mar-18. Chile and the European Union began negotiations to modernize their association agreement. The EU is Chile's second trade partner, comprising 14.9% of Chile's total trade in 2016. The idea is to deepen bilateral relations and open new areas of collaboration. Pension funds will be allowed to invest 40% of their portfolio in equities (15% today).

CHILE: APPENDIX

Dashboard

	Nov-17	Oct-17	Sep-17	Nov-16	2016
Exchange rate (CLP/USD, eop.)	633.35	636.95	640.60	676.50	670.30
Interest rate (%)	2.5%	2.5%	2.5%	3.5%	3.5%
Inflation (y/y)	-	1.9%	1.5%	2.9%	2.7%
Economic activity (y/y)	-	-	1.3%	1.0%	1.6%
Industrial activity (y/y)	-	-	-1.4%	0.1%	-0.7%
Mining production (y/y)	-	-	3.6%	-2.1%	-3.5%

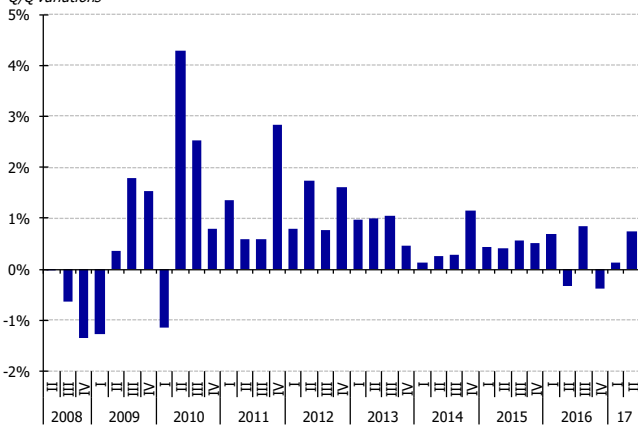
Source: EconViews based on several sources

Macroeconomic Outlook

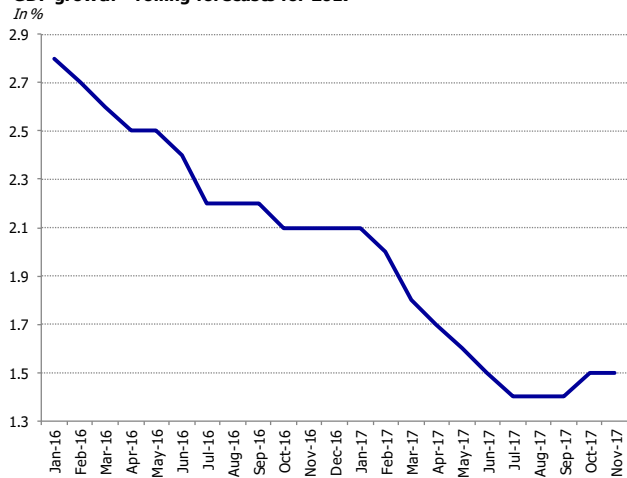
	2014	2015	2016	2017F	2018F
GDP growth (%)	1.9%	2.3%	1.6%	1.5%	3.0%
Inflation (Dec-Dec)	4.6%	4.4%	2.7%	2.1%	2.7%
Fiscal Balance (% GDP)	-1.5%	-2.1%	-2.7%	-2.8%	-2.3%
Current Account (% GDP)	-1.7%	-1.9%	-1.4%	-2.3%	-2.8%
International reserves (USD Bn)	38.9	37.2	39.5	38.9	39.1
Exchange rate (CLP/USD)	607.4	709.4	670.3	650.0	660.0

Source: EconViews based on Consensus Forecast & IMF

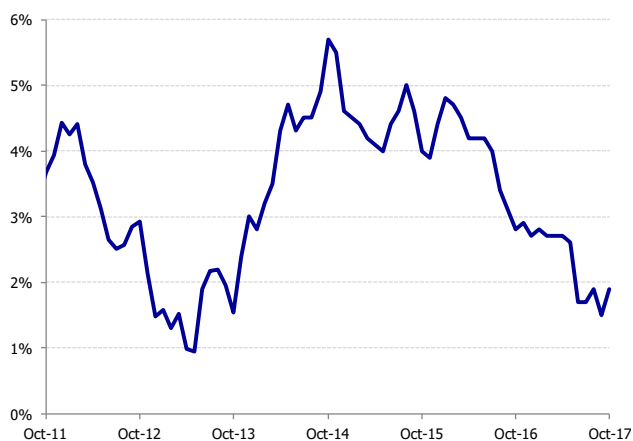
Real GDP
Q/Q variations



GDP growth - rolling forecasts for 2017



Inflation - General CPI
Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
GDP growth accelerated in Q3. Inflation continued its slow down and allowed the Central Bank to ease the monetary policy. The trade deficit is shrinking, although at a gradual pace.	Rating agencies again expressed concern over fiscal challenges. Growth prospects and uncertainty ahead 2018's elections make fiscal targets uphill. A rating downgrade is possible.	Industrial activity continued falling relative to year ago. Consumer and investor confidence remain in low levels. Venezuela defaulted and this may complicate relationships further.

Politics

The Constitutional Court put a final point to the discussion around the participation in politics of the Alternative Communal Revolutionary Front. Former FARC's members can participate in the congressional and presidential elections next year. Although it was resisted by part of the opposition, the political reform is about to be approved in the Congress, and it would allow congressmen to change of political party in case they want so. Some congressmen are investigated for the Odebrecht scandal.

Economic Activity

Activity showed a modest recovery in Q3, expanding 2.0% relative to year ago and faster than in Q2 (1.2%), led by agriculture, which is recovering from the impact of El Niño the last year, while construction and mining are still the main drags on growth. Specifically in September, activity showed mixed signals. While retail sales increased 1.4% relative to year ago (after falling 1.1% in August) the industry fell 1.9% and more than expected. We expect a GDP growth of 1.8% this year, rising to 2.5% next year.

Inflation

Inflation once again surprised to the downside in October, as monthly inflation was only 0.02%, and lower than expected. The main driver was a decrease of 0.24% on food prices. Still, due to non recurring effects that lowered the base of comparison a year ago, annual inflation raised moderately in relation to September and reached 4.05% in October, above the Central Bank's 4.0% upper bound for the first time since May. We expect year end inflation at 4.0% and next year at 3.4%.

Monetary Sector

Despite higher oil prices, the Colombian Peso depreciated in October. Higher yields on US Treasuries, lower local interest rates, worse fundamentals and a wider current account deficit are behind this weakening. We expect the FX rate at 3,100 Pesos per US at the end of 2017. The CB cut the policy rate by 25 bps to 5.0%, as a response to negative inflation surprises and an improvement on the inflation outlook. As there are still some downside risks for activity, a further monetary policy easing is possible.

Fiscal Front

The Congress approved the 2018 budget. Still, the prospects for the fiscal accounts remain challenging. The Government is targeting a fiscal deficit of 3.1% in 2018, down from the 3.6% deficit expected for this year. However, meeting the fiscal targets will be complicated, considering GDP would expand only moderately this and next year. As a result, at some moment the Congress would have to discuss the need to ease the current fiscal rule, to move on with a new tax reform, or both.

What's coming next?

Checklist of issues to monitor in the domestic front:

- The tensions with Venezuela and the transition of FARC to politics
- The behavior of economic activity, which is still far from remain solid
- The deterioration on the external accounts and FDI inflows
- The evolution of fiscal accounts and the stance of monetary policy

COLOMBIA: APPENDIX

Dashboard

	Nov-17	Oct-17	Sep-17	Nov-16	2016
Exchange rate (COP/USD, eop.)	3,029	3,042	2,941	3,076	3,003
Interest rate (%)	5.03%	5.02%	5.26%	7.75%	7.50%
Inflation (y/y)	-	4.1%	4.0%	6.0%	5.7%
Economic activity (y/y)	-	-	0.3%	2.3%	2.0%
Industrial activity (y/y)	-	-	-1.9%	1.8%	3.9%

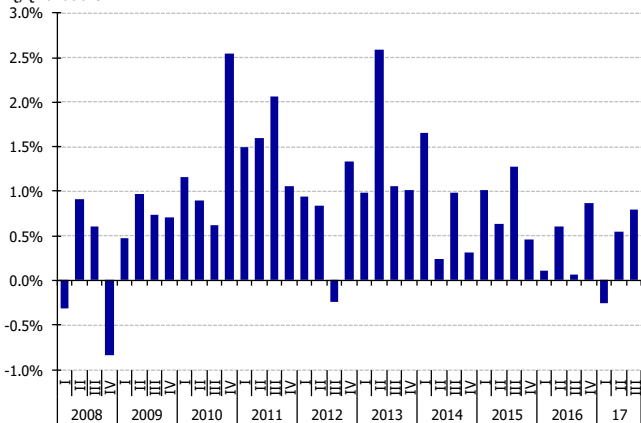
Source: EconViews based on several sources

Macroeconomic Outlook

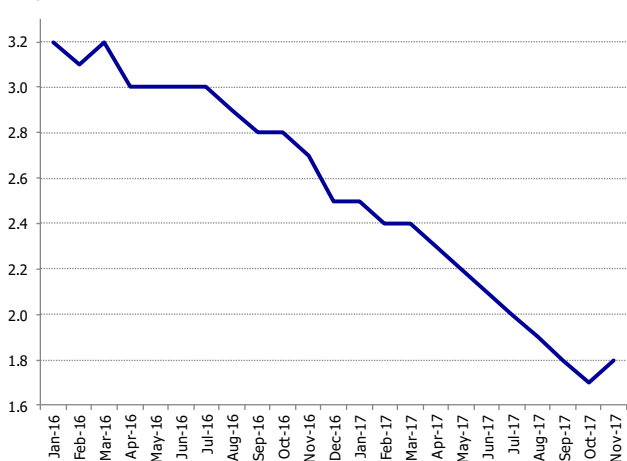
	2014	2015	2016	2017F	2018F
GDP growth (%)	4.4%	3.1%	2.0%	1.8%	2.5%
Inflation (Dec-Dec)	3.7%	6.8%	5.7%	4.0%	3.4%
Fiscal Balance (% GDP)	-2.4%	-3.0%	-4.0%	-3.5%	-3.2%
Current Account (% GDP)	-5.2%	-6.4%	-4.3%	-3.8%	-3.6%
International reserves (USD Bn)	44.9	44.8	45.0	46.6	47.4
Exchange rate (COP/USD)	2,389	3,180	3,002	3,100	3,200

Source: EconViews based on Consensus Forecast & IMF

Real GDP
Q/Q variations - DANE



GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
After a poor performance last year, the automotive sector accumulated a growth of 9.1% this year	In spite of the good performance it has shown in the 1H17, GDP will be affected due to the recent earthquakes.	More protectionism in the US as a result of the NAFTA negotiations could affect negatively the automotive sector.

Politics

The ruling Institutional Revolutionary Party (PRI), led by Enrique Peña Nieto, continues losing social support for the next year elections as he keeps on adding corruption probes. Meanwhile, the left candidate Andrés Manuel López Obrador has widened his advantage due to a split in the National Action Party, and now the PRI is in second place. As the political crisis is extending itself to the whole democratic system, the anti-establishment candidate is heading the polls.

Economic Activity

According to the flash estimate of GDP, the economy fell 0.2% q/q as the country was affected by earthquakes. The areas affected represent 25% of the economy and the impact should be seen on 4Q17. The damage could reduce GDP by 0.1 and 0.3 percent. The economy grew 1.7% y/y while it accumulated a growth of 2.2% during 2017. The automotive sector remained robust and expanded 6.4% y/y in September. After a tough 2016, cars production increased 9.1% so far this year.

Inflation

Headline inflation was 0.63% m/m in October, largely due to the rise in energy price, which climbed 5.28%. Annual inflation accelerated slightly from 6.35% in September to 6.37% in October. We expect inflation to maintain at this level during the next months and close the year at around 6.2%. Next year, headline inflation is expected to reduce strongly and stand at around 3.8% in December 18, close to the upper bound of 4.0%.

Monetary Sector

The MXN has weakened as a consequence of uncertainty in both local and external fronts, triggering an intervention by the Central Bank. The MXN is now standing at around 18.9 and has already appreciated 9% YTD. We expect volatility in the short term and a MXN standing at around 19.0 at the end of 2017. The CB left the monetary policy rate unchanged in November for the sixth consecutive time. The entity will probably adopt a neutral bias and maintain the rate at this level.

Fiscal Front

Up to September, Government revenues improved: oil exports revenues increased 20% in real terms due to the rise in prices while tax revenues went up barely 1%. Regarding expenditure, it contracted 6.4% in real terms in comparison to the same period of 2016. The main driver of this performance is the reduction in subsidies and transfers (14.8%). This way, accumulated primary balance reached 2.0%. According to estimates by the Ministry of Economy, primary deficit for 2017 will be around 1.4%.

What's coming next?

- The country will focus on recovering itself from the damage suffered because of the earthquakes. Thus, construction should accelerate in the upcoming months.
- Uncertainty in the local front from the presidential elections.
- Uncertainty in the external front, as the future of NAFTA is under threat.

MEXICO: APPENDIX

Dashboard

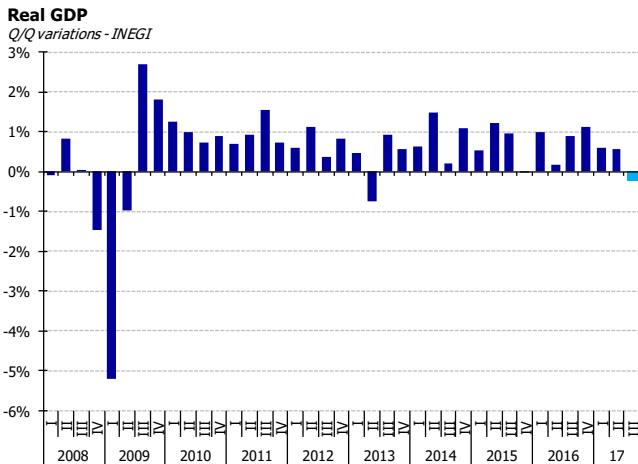
	Nov-17	Oct-17	Sep-17	Nov-16	2016
Exchange rate (MXN/USD, eop.)	18.92	19.15	18.26	20.58	20.74
Interest rate (%)	7.00%	7.00%	7.00%	5.25%	5.75%
Inflation (y/y)	-	6.4%	6.3%	3.3%	3.4%
Economic activity (y/y)	-	-	-	4.7%	2.9%
Industrial activity (y/y)	-	-	-1.2%	2.4%	0.4%
Automotive production (y/y)	-	-	6.4%	6.2%	0.8%

Source: EconViews based on several sources

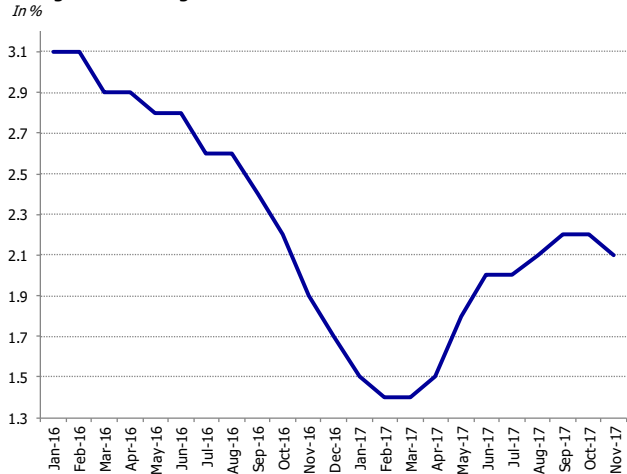
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	2.8%	3.3%	2.9%	2.1%	2.3%
Inflation (Dec-Dec)	4.1%	2.1%	3.4%	6.2%	3.8%
Fiscal Balance (% GDP)	-3.1%	-3.4%	-2.5%	-1.8%	-2.3%
Current Account (% GDP)	-1.8%	-2.5%	-2.2%	-1.7%	-2.0%
International reserves (USD Bn)	185.2	168.4	168.7	172.7	174.7
Exchange rate (MXN/USD)	14.75	17.19	20.74	19.0	19.0

Source: EconViews based on Consensus Forecast & IMF



GDP growth - rolling forecasts for 2017



Inflation - General CPI



Mexican Peso / Dollar



PARAGUAY

Good news	To be alert	Bad news
The consistency of long term GDP growth, low inflation and outstanding fiscal performance are factors that are changing the shape of the Paraguayan economy	Increased volatility in global interest rates and commodities prices should be monitored. The domestic political cycle must also be followed with attention	It is hard to find bad news if the political process in the face of the Presidential election evolves smoothly

Politics

The general elections will be held on April 22, 2018 while the internal and simultaneous elections in which each party or alliance will define its candidates will take place on December 17, 2017. Pre-candidates within the incumbent Partido Colorado are Santiago Peña (successor of President Cartés) and Mario Abdo Benítez (currently Senator) while the opposition is still trying to make progress on an accord.

Economic Activity

Activity slowed in Q2 as GDP expanded 0.9% yoy following a 6.7% yoy increase in Q1. Nonetheless, signals of rebound were observed recently in construction and manufacture. A strong demand is fueling imports up nearly 19.2% as of September. The performance is homogeneous across the line as capital, consumer and intermediate goods are printing 19%+ yoy growth rates. BCP growth forecast for 2017 is 4.2% compared with the 3.8% from our own projections.

Inflation

As of October, headline consumer prices rose by 0.5% on a monthly basis and 4.9% y/y variance. Food prices and some services have pressured the reading marginally above expectations. Core inflation was at 0.2% and 3.0% mom and yoy respectively. CPI expectations according to the Central Bank are strongly anchored at 4.0% for 2017 and 2018, in line with BCP target (4% +/-2%). We are slightly revising up our 2017 inflation forecast to 4.1% from 4.0%.

Monetary Sector

In late November the PYG traded at nearly 5,700 to the dollar, gaining 3% in nominal terms versus the USD during 2017. In its October meeting, the Central Bank decided to keep the policy rate at 5.25%. In the press release, the monetary authority stated that actual and expected inflation as well as GDP growth are evolving according to the monetary plan. We forecast the policy rate to remain at 5.25% by yearend.

Fiscal Front

As of October, the cumulative 12 month deficit at the national treasury reached 1.2% of GDP. The country can proudly show the lowest reading among neighboring countries and is consistent with the fulfillment of the Fiscal Responsibility Law. Total revenues (including royalties from Itaipu) are increasing at 9% y/y rates while primary expenditures are growing 6.4% on an YTD basis as an increase in capital expenditures is mitigated by salaries containment (now 65% of expenditures as compared to 81% by 2013). Fiscal deficit is expected to reach 1.4% of GDP in 2017.

What's coming next?

Some top issues to watch in Paraguay:

- The speed and magnitude of the Brazilian GDP rebound
- The road to the 2018 Presidential elections, including the internal elections
- US interest rates and its impact into commodities prices

PARAGUAY: APPENDIX

Dashboard

	Nov-17	Oct-17	Sep-17	Nov-16	2016
Exchange rate (PYG/USD, eop.)	5,657	5,643	5,692	5,865	5,866
Interest rate (%)	-	5.25%	5.25%	5.50%	5.50%
Inflation (y/y)	-	4.9%	4.2%	4.2%	3.9%
Economic activity (y/y)	-	-	0.8%	4.9%	4.2%

Source: EconViews based on several sources

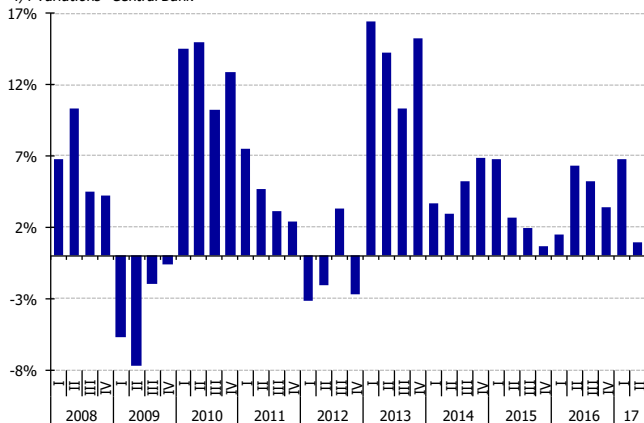
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	4.7%	3.0%	4.0%	3.8%	3.8%
Inflation (Dec-Dec)	4.2%	3.1%	3.9%	4.1%	4.1%
Fiscal Balance (% GDP)	-0.7%	-1.3%	-1.1%	-1.4%	-1.4%
Current Account (% GDP)	-0.4%	-1.1%	1.7%	1.1%	0.4%
International reserves (USD Bn)	6.9	6.2	7.1	n.a.	n.a.
Exchange rate (PYG/USD)	4,642.2	5,813.9	5,866.0	5,720.0	5,940.0

Source: EconViews based on Consensus Forecast & IMF

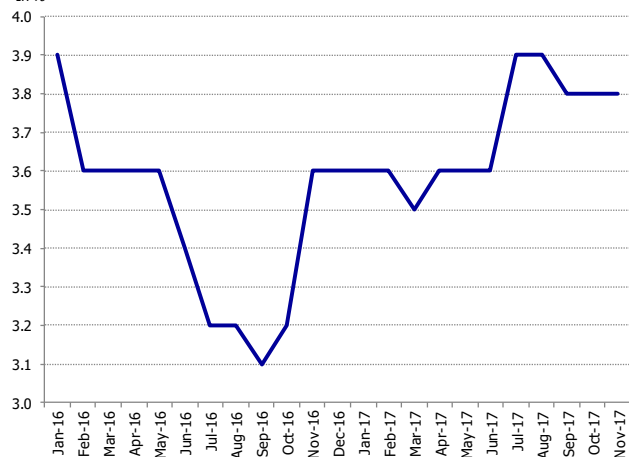
Real GDP

Y/Y variations - Central Bank



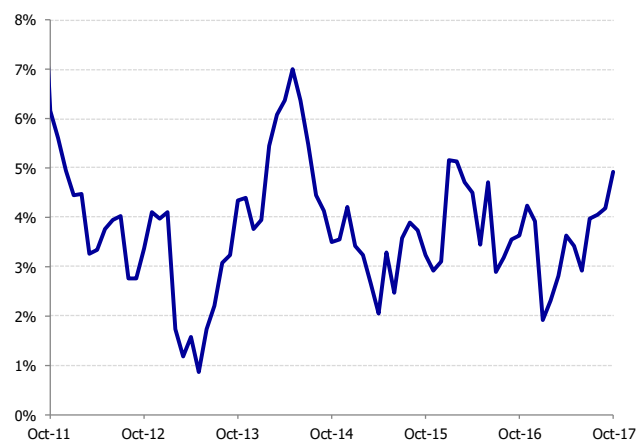
GDP growth - rolling forecasts for 2017

In %

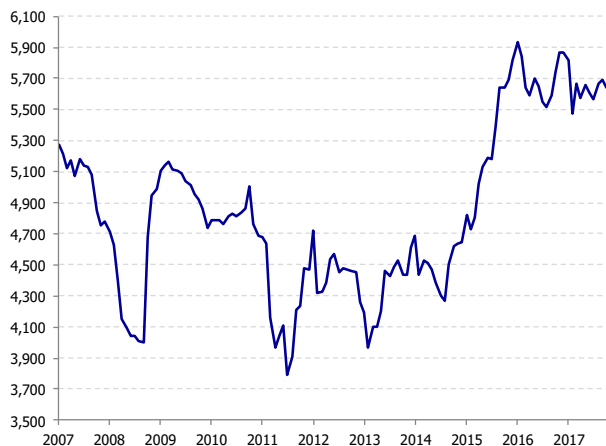


Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
Business confidence reached a 4-year high in October while consumer confidence is optimistic for the first time in 6 months.	Compared to the same period of 2016, job creation grew 88.3 thousand in the Aug/Oct moving quarter but the majority where under-employed (70.2 thousand).	Political conditions are deteriorated. More consensus between officialism and opposition is needed.

Politics	<p>The new Chief of Cabinet, Mercedes Aráoz obtained a confidence vote from the Parliament. There is much confrontation between president PPK and Fuerza Popular (Fujimoristas): PPK is accused of being a consultant for Odebrecht and Fuerza Popular has asked to remove prosecutor P. Sánchez, who investigates the Lava Jato gate. Also, K. Fujimori was probed for money laundering. In Nov-17 disapproval of PPK reached 65% and is still high.</p>
Economic Activity	<p>In September economic activity went up 3.2% y/y, the fastest pace in 3 months. Up to that month economic activity grew 2.4% compared to 2016. Rebound in investment: construction and telecommunications were the most dynamic sectors in the month. Industry was a drag: it fell 2.6%, the third consecutive contraction in a row while mining activity expanded 7.1%. For 2018, the economy is expected to grow 3.7%.</p>
Inflation	<p>Inflation fell faster than expected: it was 2.0% y/y in Oct-17, near the CB's target, after reaching 3.2% in Aug. On a monthly basis, prices decreased 0.5% (food prices went down 1.9% m/m) 12-month expectations continue to in the range and probably will reduce in the upcoming months. For 2017, inflation was revised down to 2.2%.</p>
Monetary Sector	<p>The Peruvian Nuevo Sol showed some volatility and reached 3.27 but nowadays it appreciated to 3.25. So far this year, the currency is 3.0% stronger. In Nov-17, the CB lowered its policy rate 25 bps to 3.25% as the economy is growing but below its potential, inflation fell fast, inflation expectations are near the target range and global economy is recovering (but with more uncertainty related to monetary policy tightening in advanced economies).</p>
Fiscal Front	<p>Fiscal deficit was 2.9% of GDP up to October, below the 3.2% registered last year. Among public expenditure (16.7%), investment is accelerating its pace of growth as fiscal stimulus was needed after "El Niño". Revenues grew 11.8% y/y and only 2.5% in the annual cumulative compared to 2016. For 2017, fiscal deficit is expected to stand around 3.0% of GDP and to deteriorate to 3.1% for 2018.</p>
What's coming next?	<p>The Government is seeking a labor reform that is key: informality is high (70%) and the country needs to improve its competitiveness. The CB chairman Julio Velarde said in 2H-17 economy will grow helped by the rebound of non-primary activities. The easing cycle is coming to an end as inflation fell faster than expected.</p>

PERU: APPENDIX

Dashboard

	Nov-17	Oct-17	Sep-17	Nov-16	2016
Exchange rate (PEN/USD, eop.)	3.26	3.25	3.27	3.42	3.36
Interest rate (%)	3.25%	3.50%	3.50%	4.25%	4.25%
Inflation (y/y)	-	2.0%	2.9%	3.4%	3.2%
Economic activity (y/y)	-	-	3.2%	3.5%	3.9%
Manufacturing activity (y/y)	-	-	-2.6%	4.1%	-1.4%
Mining production (y/y)	-	-	7.1%	11.6%	16.3%

Source: EconViews based on several sources

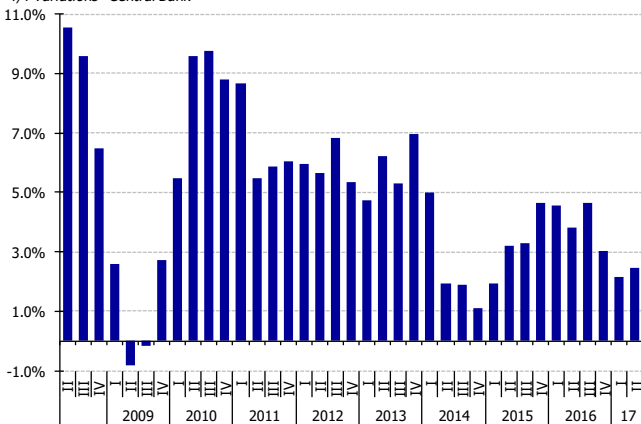
Macroeconomic Outlook

	2014	2015	2016	2017F	2018E
GDP growth (%)	2.4%	3.3%	3.9%	2.6%	3.7%
Inflation (Dec-Dec)	3.2%	4.4%	3.2%	2.2%	2.6%
Fiscal Balance (% GDP)	-0.3%	-2.1%	-2.6%	-3.0%	-3.1%
Current Account (% GDP)	-4.4%	-4.8%	-2.7%	-1.5%	-1.6%
International reserves (USD Bn)	60.1	59.4	59.8	64.6	67.7
Exchange rate (PEN/USD)	3.00	3.42	3.36	3.25	3.30

Source: EconViews based on Consensus Forecast & IMF

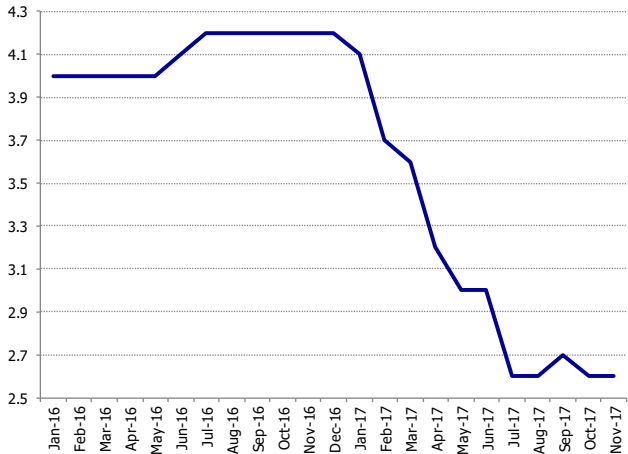
Real GDP

Y/Y variations - Central Bank



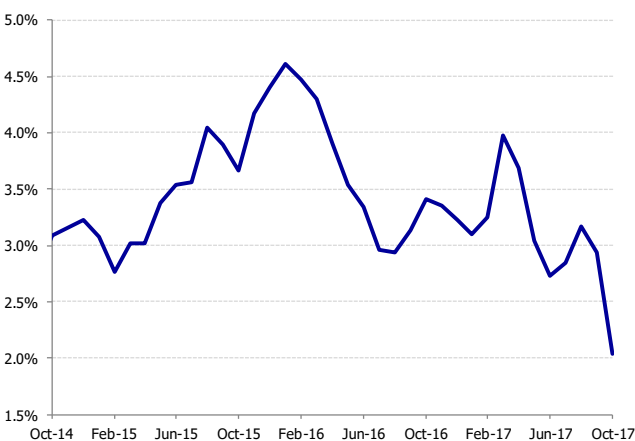
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
Growth momentum remains in place and should be reinforced by a recovery in Argentina and Brazil. Real wages keep on recovering as inflation bottoms out.	The external front is improving, especially in Europe and Brazil, but the dependency of Latam countries on the US policy cycle cannot be underestimated	The fiscal consolidation target for 2017 calls for a 1% reduction of the deficit, which we see difficult to achieve.

Politics	<p>According to several polls conducted in October, the currently ruling Frente Amplio is ahead on the intention of vote for President. If the elections were held today, the Partido Nacional is second and the Partido Colorado third. The results should be taken with caution as the Presidential elections will be held in two years time and the candidates are not decided yet. In addition, undecided voters explain a significant share of the respondents.</p>
Economic Activity	<p>Activity in neighboring Argentina and Brazil is improving and this will probably benefit Uruguay. Activity in La Teja refinery was reinitiated after several months of a technical stoppage and this will support industrial activity. On the demand side, private consumption is growing at +4.0% annual rates fueled by a recovery in real wages as nominal salaries exceed a taming inflation. Business and consumer sentiment are heading slightly upwards. Unemployment rate remains barely unchanged at 7.8%. Our GDP estimate is 3.1% for 2017</p>
Inflation	<p>Inflation in October printed a monthly variance of 0.5% to reach an annual increase of 6.0%, above the center of the BCU 3-7% target range. Clothing, transport, entertainment and other services were above the average CPI monthly variance. Our full 2017 inflation forecast lies in the 6.4% area. We expect a subtle acceleration in inflation for 2018 in tandem with a weaker Peso and a stronger economic activity pulled from neighboring countries.</p>
Monetary Sector	<p>In a context of stronger Latam currencies, the UYU has remained unchanged so far in 2017 due to the cumulative intervention efforts from the BCU that amounted to USD 3.0 billion year to date. The BCU monetary policy remains tight but in consideration of growing money demand the annual M1 growth target for the period September-December was revised higher to 13-15%. The next COPOM meeting will take place in late December. We forecast the UYU to trade nearly at 29.50 by year end.</p>
Fiscal Front	<p>The fiscal deficit remains stable but at high levels as September figures resulted in a 3.6% total fiscal deficit to GDP ratio. Primary deficit figures worsened as revenues are growing 6.4% yoy but expenses increased 20.5% yoy as ANCAP replenished its crude inventories due to La Teja stoppage. The fiscal consolidation plan for this year calls for a 1% reduction in the fiscal deficit to target 3% of GDP. We foresee a fiscal deficit of 3.4% by yearend.</p>
What's coming next?	<ul style="list-style-type: none"> Positive news from the construction of a pulp plant by UPM can be reinforced by a PPP financed project to build railroad to support logistics GDP improvement may gain momentum if activity in Argentina and Brazil recovers. Fiscal deficit is a key issue to monitor US monetary policy should also be in the dashboard

URUGUAY: APPENDIX

Dashboard

	Nov-17	Oct-17	Sep-17	Nov-16	2016
Exchange rate (UYU/USD, eop.)	29.55	29.27	29.21	29.10	29.35
Interest rate (%)	8.02%	7.75%	8.04%	11.00%	11.50%
Inflation (y/y)	-	6.0%	5.8%	8.1%	8.1%
Economic activity (y/y)	-	-	-	3.1%	1.5%
Manufacturing activity (y/y)	-	-	-19.5%	2.6%	0.3%

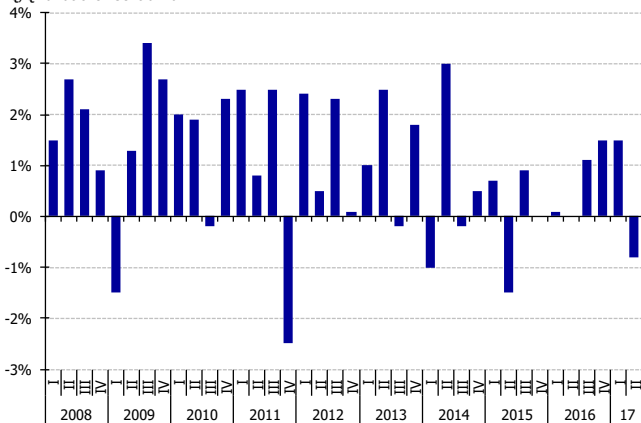
Source: EconViews based on several sources

Macroeconomic Outlook

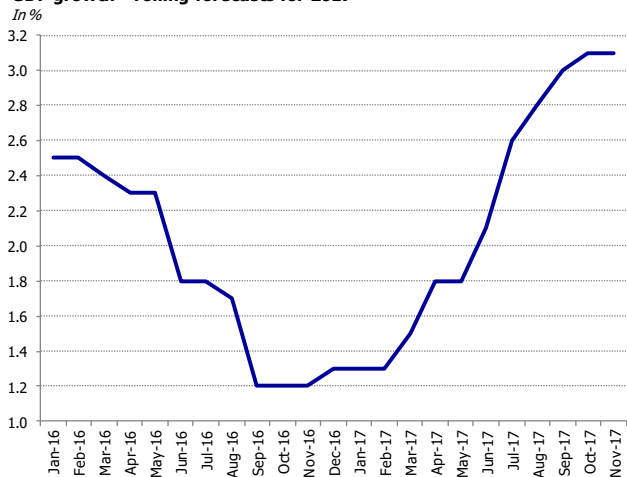
	2014	2015	2016	2017F	2018F
GDP growth (%)	3.2%	0.4%	1.5%	3.1%	2.8%
Inflation (Dec-Dec)	8.3%	9.4%	8.1%	6.4%	6.9%
Fiscal Balance (% GDP)	-3.5%	-3.6%	-4.0%	-3.0%	-2.7%
Current Account (% GDP)	-4.5%	-2.1%	-0.1%	-0.4%	-0.8%
International reserves (USD Bn)	17.8	15.6	13.4	n.a.	n.a.
Exchange rate (UYU/USD)	24.42	29.94	29.35	29.50	31.00

Source: EconViews based on Consensus Forecast & IMF

Real GDP
Q/Q variations - Central Bank



GDP growth - rolling forecasts for 2017



Inflation - General CPI
Annual changes



Uruguayan Peso / Dollar

